



DEPARTMENT OF THE ARMY
HEADQUARTERS UNITED STATES ARMY FORCES COMMAND
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FORT MCPHERSON GEORGIA 30330-1062

REPLY TO
ATTENTION OF

AFLG-PR

14 January 2000

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Contracting Information Letter (CIL) 00-12,
Performance-Based Service Contracting (PBSC)

1. References:

- a. OFPP Policy Letter 91-2, Service Contracting
- b. FAR 37.6, Performance-Based Service Contracting

2. The purpose of this CIL is to further endorse the implementation of OFPP policy in accordance with reference 1a above and provide elements for consideration when using performance based methods in accordance with reference 1b above.

3. A concerted effort must be taken between customer and contracting personnel to ensure the development of contract requirements which are concise, clear, current, and that maximize the use of commercial practices. One goal of each document specification review should be to refine the final requirements package into a streamlined summation of the government's needs that is free of extraneous, restrictive, non-applicable performance requirements, publications and other related documents. We believe the use of performance-based contracting methods will accomplish this objective.

4. FORSCOM guidance regarding Performance-Based Service Contracting (PBSC) is as follows:

- a. Use performance-based contracting methods when contracting for services or justify not using performance-based methods and document the contract file accordingly.

- b. Identify the government's requirement in terms of the required results or outcomes. State what the contractor is required to deliver in terms of a product or service, but not how the contractor is required to deliver.

AFLR-PR

SUBJECT: Contracting Information Letter (CIL) 00-12,
Performance-Based Service Contracting (PBSC)

c. Describe the required results and include performance standards. The standards identify what the contractor's performance will be measured against. They are used to determine if the service performed or the item delivered by the contractor satisfactorily meets the required results or outcomes. Standards may be expressed in terms of quality, quantity, time, appearance, etc. and should include elements such as what, when, where, how many, and how well. Consider the following custodial service example:

The contractor is required to sweep all non-carpeted floor surface areas so that after sweeping, the floors are free of all visible litter, dust, and foreign debris. In addition, the contractor must sweep in accordance with the task and frequency schedule. In this example, the contractor knows what is required (sweep the floors), and what the standard is (floors free of all visible litter, dust, and foreign debris) and when the contractor must deliver (in accordance with the task and frequency schedule).

d. Describe objective performance standards in the performance work statement (PWS) to the maximum extent possible. We note however that not all contract requirements can be measured with a degree of strict objectivity. Deviations from subjective standards must be thoroughly documented to provide objective evidence of the deviation.

5. When using performance based methods, the contracting officer must ensure consistency and give consideration to the development of the PWS, Quality Assurance Surveillance Plans (QASP), contract type, source selection, and experience gained from repetitive requirements.

a. PWS: A PWS describes the specific requirements the contractor must meet in performance of the contract. It specifies a standard of performance for the required tasks and the quality level the government expects the contractor to provide. The key elements of the PWS are established during the job analysis. Job analysis is a technique used for writing the PWS. It is a step by step review of the requirements to determine the agency's needs and the kinds of services and

AFLG-PR

SUBJECT: Contracting Information Letter (CIL) 00-12,
Performance-Based Service Contracting (PBSC)

outputs the contractor should provide. This stage is critical because the services or outputs identified from the job analysis become the basis for establishing performance requirements, developing performance indicators and standards, writing the PWS, and developing the QASP. If the job analysis is executed properly, writing the PWS and QASP will be facilitated with minimal effort.

b. QASP: A QASP is a document that provides effective and systematic procedures that the government should follow to ensure the required performance standards are achieved. The QASP is a document that provides effective and systematic procedures that the government should follow to ensure the required performance standards are achieved. A QASP should be prepared for all performance-based contracts. In those cases where the value of non-performed or poorly performed work cannot be recovered, deduction may be employed. The use of payment deductions for deficient performance of fixed price contracts avoids relying on resource-intensive inspection to assess contractor performance; instead the surveillance techniques of oversight will be used, as appropriate. The QASP and PWS are interdependent documents, must be coordinated for efficiency and effectiveness, and should be written simultaneously. The QASP serves as a management tool to provide feedback to the contractor that can be used to gauge performance.

c. Contract Type: PBSC enables increased use of fixed-price contracts and both positive and negative incentives to encourage optimal performance. In a fixed price contract, the contractor assumes responsibility for the end results. If the service does not satisfactorily meet the requirements, correction or rework is at the contractor's expense. Cost contracts should be used when services can only be defined in general terms or if risk of performance is not reasonably manageable. Even in a cost contract performance oriented work statements should be used to the maximum extent possible. Every effort should be made to convert cost contracts to fixed-price type contracts as soon as possible. The key is to select contract types that motivate contractors to perform optimally. When appropriate, include positive incentives to reward contractors for superior performance.

AFLG-PR

SUBJECT: Contracting Information Letter (CIL) 00-12,
Performance-Based Service Contracting (PBSC)

d. Source Selection: Use competitive negotiations when the acquisition is not fully defined and the contracting activity must resolve issues with potential offerors prior to award.

e. Repetitive Requirements: Rely on the experience gained from repetitive requirements to incorporate performance-based acquisition methods and convert from a cost reimbursement to fixed price arrangement as appropriate.

6. Advantages of Using PBSC Methods:

a. Improved quality of services: When the PWS identifies what is required (i.e., what performance standards the contractor must meet or exceed) the contractor has the flexibility to determine the best way to fulfill the requirement and reduce the cost to the government. The contractor is motivated to provide quality services if incentives are structured properly. The risk shifts from the government to the contractor.

b. Increased Customer Satisfaction: Customer satisfaction is increased because the quality of services improve, and cost savings are realized, particularly in the case of fixed price contracts, competitively awarded. Customer satisfaction also increases because it is easier to detect whether performance meets, exceeds, or is below the performance standards.

c. Pay for Performance: The government only pays or rewards for services meeting or exceeding the standards.

d. Objective Data for Future Source Selections: The contractor's performance evaluation is used to determine future contract awards. When a contractor knows that its current performance will influence future award decisions, an incentive to strive for outstanding performance is created.

e. Initial compliance with the PBSC process requires heavy resource investment to re-evaluate the way we state our requirements. However, once completed, it facilitates future

AFLG-PR

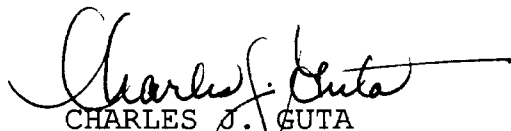
SUBJECT: Contracting Information Letter (CIL) 00-12,
Performance-Based Service Contracting (PBSC)

re-procurements and the governments needs will be better defined and managed.

7. Use PBSC methods when the government's requirements can be described using a performance-based approach. However, you may not be able to totally convert a statement of work to performance-based. You may have a requirement whereby the majority of the effort can be described in performance-based terms. Most significant services will also include mandatory design requirements. If this is the case, only include the necessary "how to" language, and give the contractor as much latitude as possible to determine how to best meet the government's needs.

8. Request the Chief of AACC and each director of contracting appoint an individual as a point of contact for PBSC. These individuals will serve as the focal point for sharing PBSC lessons learned, samples of distribution, quarterly statistics for report purposes, and primaries to assist in resolving PBSC issues. Please provide the name of the POC, phone number and email address not later than 01 February 2000 to Julie Grace, DSN 367-5690 or email to gracej@forscom.army.mil.

9. If you have questions regarding the PBSC Program, please contact Julie Grace, DSN 367-5690, Judy Armstrong, DSN 367-5642 or Beverly Thomas, DSN 367-7284.



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